

# TRADE BASED MONEY LAUNDERING

## Prevent Misuse of International Trade System and Defeat Financial Crime

In the 1960s, a cargo ship arrived at the shores of North Ireland. The ship's manifest showed a routine furniture shipment from Italy, but border inspectors found guns and cash hidden with the sofas and tables. The contraband was being smuggled into Ireland by the IRA.

The importer was indeed a furniture manufacturer, and there were no risk-indicators found by the bank, who provided guarantees on the transaction. In a world where the paperwork looked perfect, how could banks know that they were unwitting participants in a trade-based money laundering scheme?

### What is Trade-Based Money Laundering?

Trade-based money laundering (TBML) is one of the most sophisticated methods criminal networks use to clean dirty money and support their criminal deeds. According to Global Financial Integrity, a Washington, D.C.-based think tank, the global aggregate value gap in misinvoicing, a common TBML technique, was over \$817 billion in 2017.

In addition to misinvoicing, where invoices misrepresent the price, quantity, or quality of goods being transferred, TBML activities including the following:

- Moving illegal products such as weapons, drugs, cigarettes, or people
- Trade in high-value products such as art, diamonds, or natural resources
- Buying or selling through fictitious companies

The use of legitimate-looking trade as a tool to launder money enables the transfer of large amounts of funds with a reasonable justification for the transfer.

FATF identified TBML as one of three main methods by which criminal organizations and terrorist financiers move money. In 2012, they found that there was a significant lack of awareness and training regarding TBML, leading to few reported cases.

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## What Are Banks Expected to Do About TBML?

To date, FATF has not issued detailed guidance documents on combatting TBML. However, as with any money laundering activity that involves financial institutions, banks are expected to do their due diligence to prevent illegal financial activities. Failing to act on TBML exposes banks and other financial institutions to regulatory scrutiny for facilitating criminal activity, as well as put them at risk of reputational damage and shareholder lawsuits.

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## Taking Control of TBML

ThetaRay's trade-based money laundering solution provides **meaningful detection of financial crime risks within the trade finance business**. It mitigates banks' risk from TBML activities, and can provide law enforcement officials with data they need while investigating criminal activity.

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### Meaningful Detection of Financial Crime Risk

While banks aren't experts in shipping and don't have access to the actual goods or shipping containers, they do hold the data needed to uncover irregularities. ThetaRay's TBML solution scours through existing data sources, including SWIFT transmissions, documents, customer and counterparty data, historical data and transaction-related data, to identify different dimensions of risk.

### Maximization of Data

With the data collected, ThetaRay's AI engine looks for anomalies and inconsistencies throughout the files. It identifies misalignments regarding payments, goods, or shipping routes. It uses market data, as well, and flags transactions where goods are priced too high or transpire in suspicious geographies, alerting investigators to potential money laundering transactions.

## TBML Red Flags:



• Payments by unrelated third parties



• Unusual shipping routes



• Packaging inconsistent with shipped goods



• Carousel transactions



• Commodities traded that don't match the supplier

## Risks Mitigated

Through ThetaRay's TBML solution, banks are able to protect themselves from unwittingly participating in trade-based financial crimes. They can continue to finance or facilitate international trade, with the confidence that they aren't aiding in criminal activity.

## For more information

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